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FY 2017 Income Limits Expected to Include Higher Ceiling

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The U.S. Department of Housing and Urban Development (HUD) is expected to release income limits for 2018 on March 30, giving public housing authorities (PHAs) and affordable property owners guidelines by which to set tenant income restrictions and in some cases maximum gross rent for their properties.

The limits will be effective immediately, although some programs will allow an additional time to implement the limits.

Unlike in some recent years, the national income numbers are on the rise. The increasing limits may result in some properties having a significantly higher ceiling for income limits.

As in recent years, HUD will simultaneously release income limits for HUD-assisted housing programs and for what HUD calls multifamily tax subsidy projects (MTSPs)–properties that receive tax-exempt bonds or low-income housing tax credits (LIHTCs). The HUD-assisted programs include public housing, Section 8, Section 202 and Section 811.

Novogradac & Company LLP predicts robust income growth for 2018 and 2019, based on a study of the data on which the limits are based. That's a repeat of 2017, but a change from the two years before that.

HUD's Target Date and Changes

HUD has stated that it has a new target release date of April 1 for income limits, but with that date falling on a Sunday this year, HUD moved up the targeted release date two days.

Beginning in 2011, HUD set a target release date of Dec. 1, but the changes made by Congress in 2015 to the determination of extremely low-income (ELI) limits made the Dec. 1 target date unrealistic.

ELI changes included the use of Department of Health and Human Services poverty guidelines in the formula. Those are historically published in late

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January (they were published Jan. 18 this year), after which HUD must update its limits and put the results through an internal review. ELI limits don't affect LIHTC income limits, but the combined HUD-MTSP release must wait.

After 2015, HUD had an unpredictable release date but HUD listened to comments from income-limit users who said the uncertainty caused a burden on families, PHAs and others and has now established a new release target date. Last year's limits were released April 14, continuing a three-year trend when the limits were released two or three weeks later than the previous year. The plan this year is to beat the April 1 target by two days.

Income Growth Expected

As stated earlier, Novogradac forecasts an increase in the national median income.

HUD's 2018 area median income (AMI) figures will be based on the 2015 American Community Survey (ACS), which was released in December 2016. Novogradac & Company has already calculated estimates of the AMI for 2018 based on the ACS data and estimates that the national median income will increase by more than 5.6 percent this year (and by more than 5.1 percent in 2019). This year will mark the second consecutive year of a median increase following decreases in 2015 and 2016.

The income increase is widespread with state median income increases expected in all 50 states–plus Puerto Rico and Washington, D.C.–are predicted to have increases in median income in 2018.

The statewide income increases come with the caveat that MTSP and HUD income limits are published by county. There will be counties with decreases and counties with increases.

However, the national median income is significant for tax credit properties, since HUD caps the increases for those properties to the greater of 5 percent or double the change in the national median income. Using the number calculated by Novogradac & Company (the figure is actually 5.66 percent), the cap would be 11.32 percent for 2018. That's a jump over previous years for areas with rising income–including 2015 and 2016, when the cap was 5 percent, even after accounting for double the change in national median income.

The limit for decreases remains 5 percent.

Another important distinction is that rural properties (as defined by the U.S. Department of Agriculture) with 9 percent LIHTCs are allowed to use the greater of the national non-metro median income or the income limit that would otherwise be applicable. It's the property owner's choice.

High-Housing-Cost Adjustments

Another thing to keep in mind is that in addition to geographic changes, income limits can change differently in some areas.

For LIHTC property owners and managers, it's important to remember that HUD applies a high-housing-cost adjustment to areas where the HUD-published fair market rents are abnormally high in comparison to the AMI.

Those areas–high housing cost areas–have an income limit adjustment based on the two-bedroom fair market rent (FMR) published by HUD. Novogradac estimates that 83 counties (out of more than 3,000 in the nation) will have an increase in income limits due to high housing costs. The higher income limits allow a higher percentage of the population to qualify for Section 8 assistance and LIHTC units.

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The May issue of the Journal of Tax Credits will have analysis and more information on the income limits following their release.

Until then, property owners and managers should be ready for the HUD announcement and be prepared to adjust their income limits and rent ceilings appropriately. ❖

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